

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--|--------------------------|--|---------------------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Unit Name Cheboygan Airport Authority | County Cheboygan |
| Fiscal Year End 12-31-05 | Opinion Date 05-13-06 | Date Audit Report Submitted to State 05-24-06 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

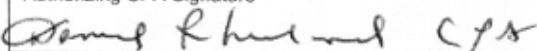
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | |
|---|-------------------------------------|--|--------------|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | |
| Financial Statements | <input checked="" type="checkbox"/> | | |
| The letter of Comments and Recommendations | <input checked="" type="checkbox"/> | | |
| Other (Describe) | <input type="checkbox"/> | | |
| Certified Public Accountant (Firm Name) Daniel R. Nieland C.P.A. | | Telephone Number 231-627-4396 | |
| Street Address 201 South Main Street | | City Cheboygan | State MI |
| Authorizing CPA Signature  | | Printed Name Daniel R. Nieland C.P.A. | Zip 49721 |
| | | License Number 12250 | |

CHEBOYGAN AIRPORT AUTHORITY

FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2005

AND

FOR THE YEAR ENDED DECEMBER 31, 2004

DANIEL R. NIELAND

CERTIFIED PUBLIC ACCOUNTANT

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MEMBER
AMERICAN INSTITUTE OF CERTIFIED
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MICHIGAN ASSOCIATION OF CERTIFIED
PUBLIC ACCOUNTANTS

Members Of The Board
Cheboygan Airport Authority
Cheboygan, Michigan 49721

I have audited the accompanying Statement of Net Assets of the Cheboygan Airport Authority (the Airport) as of December 31, 2005 and 2004, and the related Statements of Revenues, Expenses and Changes in Net Assets and Cash Flows for the period then ended. These financial statements are the responsibility of the management of the Airport. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly in all material respects the financial position of Cheboygan Airport Authority as of December 31, 2005 and 2004, and the results of the activities and its cash flows for the initial period then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.



CERTIFIED PUBLIC ACCOUNTANT

May 13, 2006
Cheboygan, Michigan 49721

CHEBOYGAN AIRPORT AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis (MD & A) of the Cheboygan Airport Authority's activities is intended to provide an overview of the Authority's financial condition. The information contained in this MD & A should be considered in conjunction with the statement of net assets; the statement of revenue, expenses and changes in net assets; the statement of cash flows and other information contained in this report.

Operational Overview

The Cheboygan Airport Authority and the managers have continued to be vigilant in containing costs while searching for ways to increase revenues. Because of limited revenue, we are still dependent on subsidy from Cheboygan County to balance the budget. We don't envision a change in this pattern for the foreseeable future.

The self-service fuel system is working well, especially with respect to after hour sales. Fuel sales have increased over the prior year. However, as the year went forward and fuel prices increased, we have seen a reduction in volume of sales.

During the year, we sold our old Massey-Ferguson tractor, which had been used for snow removal for \$3,300.00.

The grant project for the parallel taxiway was finished by years end with the exception of a routine punch list to be addressed. Total project cost was \$399,473.55. The Federal and State portions were \$319,578.68 and \$69,907.84 respectively. The local portion of \$9,986.83 is shown at year-end in accounts payable. This amount will be finalized with the completion of the punch list.

Used furniture was donated by Cheboygan Memorial Hospital. Its value was estimated at \$860.00 and booked as a capital asset.

The Airport Authority is grateful for the ongoing support of Cheboygan County.

CHEBOYGAN AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Position Summary

A condensed summary of the Authority's statement of net assets for the years ended December 31 is presented below:

| | <u>2005</u> | <u>2004</u> |
|-------------------|--------------------|--------------------|
| ASSETS: | | |
| Current | \$ 32,861 | \$ 39,247 |
| Non-Current | <u>1,725,169</u> | <u>1,400,031</u> |
| TOTAL ASSETS | <u>\$1,758,030</u> | <u>\$1,439,278</u> |
| LIABILITIES: | | |
| Current | \$ 16,525 | \$ 37,457 |
| Non-Current | <u>55,769</u> | <u>59,224</u> |
| TOTAL LIABILITIES | <u>\$ 72,294</u> | <u>\$ 96,681</u> |
| NET ASSETS | <u>\$1,685,736</u> | <u>\$1,342,597</u> |

Summary of Changes in Net Assets

A condensed summary of the Authority's changes in net assets for the years ended December 31 is presented below:

| | <u>2005</u> | <u>2004</u> |
|-------------------|----------------|----------------|
| Operating Revenue | \$ 122,533 | \$106,088 |
| Cost of Sales | 53,167 | 48,520 |
| Operating Expense | <u>176,863</u> | <u>162,341</u> |
| Operating Loss | (107,497) | (104,773) |

CHEBOYGAN AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

Summary of Changes in Net Assets (Continued)

| | <u>2005</u> | <u>2004</u> |
|-----------------------------|-------------------|-------------------|
| Non-Operating Revenue: | | |
| Federal Grants | \$ 319,579 | \$ 194,529 |
| State Grants | 69,908 | 8,073 |
| Interest Income | 128 | 62 |
| Municipal Appropriations | 56,861 | 50,000 |
| Sales of Assets | 3,300 | 0 |
| Donated Property | <u>860</u> | <u>0</u> |
| Total Non-Operating Revenue | <u>450,636</u> | <u>252,664</u> |
| NET INCREASE IN NET ASSETS | <u>\$ 343,139</u> | <u>\$ 147,891</u> |

Financial Statements

Cheboygan Airport Authority's financial statements are prepared on an accrual basis in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board. The Authority accounts for its activity in a single enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when paid. Capital assets are depreciated (except land and construction -in-progress) over their useful lives. Construction -in-progress projects are closed and transferred to their respective capital accounts upon completion.

Contacting the Authority's Financial Management

This financial report is intended to provide a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Cheboygan Airport Authority at 1520 Levering Road, Cheboygan, Michigan.

CHEBOYGAN AIRPORT AUTHORITY
STATEMENT OF NET ASSETS

| <u>ASSETS</u> | | <u>For The Years Ending</u> | |
|---------------------------------------|----------------------------|-----------------------------|--|
| | December 31 <u>2005</u> | December 31 <u>2004</u> | |
| CURRENT ASSETS: | | | |
| Cash and Cash Equivalents | \$ 8,968 | \$ 4,350 | |
| Accounts Receivable | 2,212 | 3,074 | |
| Inventory | 17,245 | 27,841 | |
| Prepaid Insurance | <u>4,436</u> | <u>3,982</u> | |
| TOTAL CURRENT ASSETS | 32,861 | 39,247 | |
| CAPITAL ASSETS | <u>1,725,169</u> | <u>1,400,031</u> | |
| TOTAL ASSETS | <u>\$1,758,030</u> | <u>\$1,439,278</u> | |
| <u>LIABILITIES AND NET ASSETS</u> | | | |
| CURRENT LIABILITIES: | | | |
| Accounts Payable | \$ 9,984 | \$ 27,199 | |
| Payroll and Sales Tax Payable | 2,184 | 1,672 | |
| Deferred Revenue | 664 | 1,836 | |
| Accrued Interest | 5 | 20 | |
| Note Payable – Current | <u>3,688</u> | <u>6,730</u> | |
| TOTAL CURRENT LIABILITIES | 16,525 | 37,457 | |
| NOTE PAYABLE – LONG-TERM | <u>55,769</u> | <u>59,224</u> | |
| TOTAL LIABILITIES | 72,294 | 96,681 | |
| NET ASSETS | <u>1,685,736</u> | <u>1,342,597</u> | |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$1,758,030</u> | <u>\$1,439,278</u> | |

The accompanying notes are an integral part of these financial statements.

CHEBOYGAN AIRPORT AUTHORITY
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS

| | <u>For The Years Ending</u> | |
|-------------------------------|-----------------------------|----------------------------|
| | December 31 <u>2005</u> | December 31 <u>2004</u> |
| OPERATING REVENUE: | | |
| Fuel and Oil Sales | \$ 76,686 | \$ 63,820 |
| Lease and Contracts | 11,720 | 11,687 |
| Hangar Rent and Tie Down Fees | 33,394 | 29,977 |
| Miscellaneous | <u>733</u> | <u>604</u> |
| TOTAL OPERATING REVENUE | 122,533 | 106,088 |
| COST OF FUEL AND OIL SALES | <u>53,167</u> | <u>48,520</u> |
| | 69,366 | 57,568 |
| OPERATING EXPENSES: | | |
| Advertising | 0 | 240 |
| Credit Card Fees | 1,654 | 1,467 |
| Fuel & Oil | 2,080 | 1,795 |
| Depreciation | 75,197 | 60,428 |
| Insurance | 13,876 | 13,983 |
| Interest | 174 | 619 |
| Professional Fees | 4,000 | 7,240 |
| Licenses | 250 | 291 |
| Maintenance | 11,978 | 14,447 |
| Miscellaneous | 4,499 | 944 |
| Salaries & Wages | 45,621 | 44,893 |
| Payroll Taxes | 6,468 | 5,742 |
| Subscriptions & Memberships | 347 | 347 |
| Office Supplies | 2,220 | 880 |
| Supplies | 658 | 317 |
| Telephone | 1,647 | 1,962 |
| Utilities | <u>6,194</u> | <u>6,746</u> |
| TOTAL OPERATING EXPENSES | <u>176,863</u> | <u>162,341</u> |
| OPERATING LOSS | (107,497) | (104,773) |

The accompanying notes are an integral part of these financial statements.

CHEBOYGAN AIRPORT AUTHORITY
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
CONTINUED

| | <u>For The Years Ending</u> | |
|-----------------------------------|-----------------------------|----------------------------|
| | December 31 <u>2005</u> | December 31 <u>2004</u> |
| NON-OPERATING REVENUE: | | |
| Federal Grants | \$ 319,579 | \$ 194,529 |
| State Grants | 69,908 | 8,073 |
| Interest Income | 128 | 62 |
| Municipal Appropriations | 56,861 | 50,000 |
| Sale of Assets | 3,300 | 0 |
| Donated Property | <u>860</u> | <u>0</u> |
| TOTAL NON-OPERATING REVENUE | <u>450,636</u> | <u>252,664</u> |
| INCREASE (DECREASE) IN NET ASSETS | 343,139 | 147,891 |
| NET ASSETS – BEGINNING | <u>1,342,597</u> | <u>1,194,706</u> |
| NET ASSETS – ENDING | <u>\$1,685,736</u> | <u>\$1,342,597</u> |

The accompanying notes are an integral part
of these financial statements .

CHEBOYGAN AIRPORT AUTHORITY
STATEMENT OF CASH FLOWS

| | <u>For The Years Ending</u> | |
|--|-----------------------------|----------------------------|
| | December 31 <u>2005</u> | December 31 <u>2004</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Increase (Decrease) in Net Assets | \$ 343,139 | \$ 147,891 |
| Adjustments to Reconcile Decrease in Net Assets to Net Cash Used in Operating Activities: | | |
| Depreciation | 75,197 | 60,428 |
| Changes in Operating Assets and Liabilities Which (Used) Provided Cash: | | |
| Accounts Receivable | 862 | 763 |
| Inventory | 10,596 | (16,474) |
| Prepaid Expenses | (454) | 309 |
| Accounts Payable | (17,215) | 22,632 |
| Accrued Expense | 497 | (215) |
| Deferred Revenue | <u>(1,172)</u> | <u>(1,348)</u> |
| NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES | <u>411,450</u> | <u>213,986</u> |
| CASH FLOW FROM INVESTING ACTIVITIES: | | |
| Purchase of Capital Assets | <u>400,333</u> | <u>(206,056)</u> |
| NET CASH USED BY INVESTING ACTIVITIES | <u>(400,333)</u> | <u>(206,056)</u> |
| CASH FLOW FROM FINANCING ACTIVITIES: | | |
| Loan Proceeds New Debt | 0 | 0 |
| Repayment of Long-Term Debt | <u>(6,499)</u> | <u>(14,841)</u> |
| NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES | <u>(6,499)</u> | <u>(14,841)</u> |
| NET (DECREASE) INCERASE IN CASH | 4,618 | (6,911) |
| CASH BALANCE – BEGINNING | <u>4,350</u> | <u>11,261</u> |
| CASH BALANCE – ENDING | <u>\$ 8,968</u> | <u>\$ 4,350</u> |

The accompanying notes are an integral part
of these financial statements .

CHEBOYGAN AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Government*. In accordance with Statement No. 34, the Authority is considered to be a Special Purpose Government due to engaging in only one business type of activity. To conform to the Statement, the Authority has included a Management's Discussion and Analysis section.

The financial statements of the Cheboygan Airport Authority (Authority) are prepared in accordance with Generally Accepted Accounting Principles (GAAP). The Authority's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

Reporting Entity

The Cheboygan Airport Authority (the Airport) was created by Public Act 206 as amended by Public Act 153, in July 1997, under an agreement between and through the transfer of various assets from the County of Cheboygan (the County) and the City of Cheboygan and began operations effective November 24, 1997. The Airport was formed for the purpose of promoting, improving, maintaining and operating the land, navigational and building facilities at the Cheboygan County Airport.

The Airport receives significant appropriations from the County although it is not a component unit of the County.

The following is a summary of the Airport's significant accounting policies:

FUND ACCOUNTING

The accounts of the Airport are organized on the basis of a single enterprise fund. The operations of this fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenses. Government resources are allocated for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. An enterprise fund is used to account for those operations that are financed and operated in a manner similar to private business or where the Airport has decided that the determination of revenues earned, costs incurred, or net income is necessary for management accountability.

CHEBOYGAN AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The Airport uses the accrual basis of accounting; accordingly, revenues are recognized when they are earned, and expenses are recognized when they are incurred.

The enterprise fund is accounted for on a cost of services or “economic resources” measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with its activity are included on the statement of net assets. Enterprise fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of demand deposits.

INVENTORY

Inventory consists of airplane fuel and is reported at the lower of cost or market on a first-in, first-out basis.

PREPAID EXPENSES

Prepaid expenses consist of payments made to vendors for services that will benefit future periods.

FIXED ASSETS

All purchased fixed assets are recorded at cost. Donated fixed assets, if any, are valued at their estimated fair value on the date received. Fixed assets are being depreciated on a straight-line basis over estimated useful lives, which range from five to forty years.

CHEBOYGAN AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

NOTE B – CASH AND CASH EQUIVALENTS

The caption on the accompanying statement of net assets related to cash and cash equivalents are as follows:

| | December 31 <u>2005</u> | December 31 <u>2004</u> |
|----------------------------|----------------------------|----------------------------|
| Checking | \$ 4,064 | \$ 2,632 |
| Savings | 4,804 | 432 |
| Cash on Hand | 100 | 100 |
| Reserve for Capital Assets | <u>0</u> | <u>1,186</u> |
| | <u>\$ 8,968</u> | <u>\$ 4,350</u> |

At December 31, 2005, and December 31, 2004, bank balances were fully insured (FDIC).

Statutory Authority

The Airport is authorized by Michigan law to invest surplus funds in the following way:

- a. Bonds, security, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and maturing not more than 270 days after the date of purchase.
- d. Bankers' acceptance of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase, is rated as investment grade by at least one standard rating service.
- f. Mutual funds, registered under the Investment Company Act of 1940, with the Airport to purchase only investment vehicles that are legal for direct investment by a public corporation.

CHEBOYGAN AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

NOTE C – CAPITAL ASSETS

The Airport's fixed assets consist of the following as of

December 31, 2005:

| | <u>Cost</u> | <u>Net Accumulated Depreciation</u> | <u>Book Value</u> | <u>Useful Life</u> |
|-----------------------|--------------------|---|-----------------------|------------------------|
| Land | \$ 44,086 | \$ 0 | \$ 44,086 | - |
| Runways | 1,644,822 | 339,357 | 1,305,465 | 25-40 years |
| Machinery & Equipment | 29,082 | 20,385 | 8,697 | 10 years |
| Office Equipment | 5,822 | 4,242 | 1,580 | 5-10 years |
| Vehicles | 197,277 | 69,236 | 128,041 | 7-10 years |
| Buildings | 311,454 | 187,487 | 123,967 | 10-40 years |
| Fuel Systems | <u>149,025</u> | <u>35,692</u> | <u>113,333</u> | 25 years |
| | <u>\$2,381,568</u> | <u>\$656,399</u> | <u>\$1,725,169</u> | |

December 31, 2004:

| | | | | |
|-----------------------|--------------------|------------------|--------------------|-------------|
| Land | \$ 44,086 | \$ 0 | \$ 44,086 | - |
| Runways | 1,245,349 | 300,920 | 944,429 | 25-40 years |
| Machinery & Equipment | 28,222 | 17,522 | 10,700 | 10 years |
| Office Equipment | 5,822 | 3,573 | 2,249 | 5-10 years |
| Vehicles | 210,277 | 64,382 | 145,895 | 7-10 years |
| Buildings | 311,454 | 178,075 | 133,379 | 10-40 years |
| Fuel Systems | <u>149,025</u> | <u>29,732</u> | <u>119,293</u> | 25 years |
| | <u>\$1,994,235</u> | <u>\$594,204</u> | <u>\$1,400,031</u> | |

CHEBOYGAN AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

NOTE D – LONG-TERM DEBT

The Airport's long-term debt consist of the following:

| | December 31 <u>2005</u> | December 31 <u>2004</u> |
|--|----------------------------|----------------------------|
| Loan payable to Citizens National Bank of Cheboygan for the purchase of a fuel truck. The loan requires 60 monthly installments of \$377, including interest charged at 4.90%. | \$ 1,488 | \$ 5,818 |
| Loan payable to Arrow Energy, Inc. for a fuel system. Repayment of principal at the rate of .13 cents per gallon of fuel purchased. Interest rate of 0% through maturity date, which is July 31, 2013. After maturity, the interest rate shall be 5.0% on the outstanding balance. | <u>57,969</u> | <u>60,136</u> |
| TOTAL LONG-TERM DEBT | <u>\$ 59,457</u> | <u>\$ 65,954</u> |

The amount of principal due within one year is \$3,688.

NOTE E – LEASES AND RELATED PARTY TRANSACTIONS

The Airport leased office and parking space on a month-to-month basis to Straits Area Regional Ride, for a monthly lease amount of \$800.00.

The Airport leases land for farming to Inverness Dairy Farms and property to the Cheboygan Golf and Country Club.

The Airport leases hangars to various individuals on a contract basis. Rents are to be paid monthly.

CHEBOYGAN AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

NOTE F – RISK MANAGEMENT

The Airport is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which it obtains coverage from commercial insurance companies. The Airport has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

DANIEL R. NIELAND

CERTIFIED PUBLIC ACCOUNTANT

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MEMBER
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PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

May 13, 2006

Members Of The Board
Cheboygan Airport Authority
Cheboygan, Michigan 49721

I have audited the general-purpose financial statements of the Cheboygan Airport Authority (the Airport), as of and for the year ended December 31, 2005, and have issued my report thereon dated May 13, 2006. I conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Airport's general purpose financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audits and, accordingly, I do not express an opinion. These results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audits, I consider the Airport's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing my opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain

matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Airport's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements.

The reportable condition is described as follows:

Due to staff size, there is limited segregation of duties over cash receipts and the recording of these transactions. The Airport recognizes this risk, but no change will be implemented because the costs would exceed the benefits, except as noted in the comments letter that two signatures will be required on all checks.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of management, others within the Airport, and the Airport's Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.



CERTIFIED PUBLIC ACCOUNTANT

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MICHIGAN ASSOCIATION OF CERTIFIED
PUBLIC ACCOUNTANTS

May 13, 2006

Board of Directors
Cheboygan Airport Authority
Cheboygan, Michigan 49721

Re: Comments and Recommendations

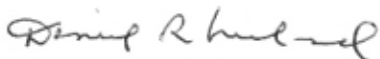
I have examined the general purpose financial statements of the Cheboygan Airport Authority for the year ended December 31, 2005, and have issued my report thereon dated May 16, 2006.

I would like to make the following comment:

As noted in my report on compliance and internal control due to staff size limitations, there is limited segregation of duties. For this reason, I would recommend two authorized signatures on all checks. At present, there are no indications of any problems, but in the future current personnel will turn over and this is a good procedure to have in place.

I would like to thank Marcia Rocheleau for her assistance. I look forward to working with you in the future.

Sincerely,



Daniel R. Nieland, C.P.A.

DRN/jb